

February 27, 2004

Mr. James T. Odiorne  
State of Washington  
Office of Insurance Commissioner  
Post Office Box 40259  
Olympia, Washington 98504-0259

Dear Mr. Odiorne:

The purpose of this report is to addend our Accounting and Tax Evaluation of the Proposed Conversion of Premera Blue Cross of Washington dated February 26, 2003, except for 2003 information which is August 29, 2003 ("Accounting and Tax Report"). All information reported herein is subject to the same limitations as reported in the cover letter to our Accounting and Tax Report.

Procedures performed since the date of the filing of our Accounting and Tax Report have been limited to review of the Company's summary update reports concerning certain pension and other post retirement benefits issued by Watson Wyatt as follows:

- Premera Blue Cross Pension Equity Plan SFAS 87/132 Disclosure at December 31, 2003 dated January 16, 2004.
- Premera Blue Cross Supplemental Defined Benefit Retirement Plan SFAS 87/132 Disclosure at December 31, 2003 dated January 16, 2004.
- Premera Blue Cross Postretirement Benefits Plan FASB Statement 106/132 Disclosure as of December 31, 2003 dated January 26, 2004.

As noted in the Accounting and Tax Report, we believe certain assumptions used for accounting and financial statement reporting purposes as of December 31, 2002 were outside of acceptable ranges. Specifically, we believe the 7.00% discount rate was high and the 8.5% assumed long-term rate of return on plan assets was excessive given the sustained poor market performance. If the Company had used what we believe were more appropriate rates, the ABO could have exceeded plan assets at December 31, 2002 which would likely have resulted in an increase in plan liabilities and corresponding reductions in equity. In addition, the expense reported in the 2003 financial statements would have been different since it is based on the assumptions used in the actuarial valuation as of December 31, 2002.

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Page 2

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We also noted during the follow-up procedures discussed above, that the calculation of the unfunded ABO as of December 31, 2002 is inappropriate as it is inconsistent with the calculation of the asset roll-forward at the end of the year. The rollforward of the ABO is based on expected benefit payments of \$8.5 million and the rollforward of the assets is based on the actual benefit payments of \$3.9 million. Consequently, instead of having assets in excess of ABO by \$0.5 million, as reported, the unfunded ABO is \$4.1 million. Therefore, even utilizing the assumptions used by the Company an additional minimum liability of \$25.8 million would result, and the full \$25.8 million would also be an adjustment to other comprehensive income.

It should be noted that certain information presented in the Accounting and Tax Report has been modified herein due to additional information reviewed since the date of the Accounting and Tax Report.

Based on a review of the information listed above pertaining to the Company's valuation as of December 31, 2003, it appears the assumptions used are more consistent with PwC's expectations. Specifically, the discount rate used as of December 31, 2003 was 6.25% and the assumed long-term rate of return on plan assets to determine 2003 expense was 7.9%. It should be noted that the 6.25% discount rate is at the high end of the acceptable range. In addition, per the company's actuary, the actual benefit payments for 2003 were much closer to the expected benefit payments.

The valuation of the Premera Blue Cross Pension Equity Plan as of December 31, 2003 resulted in the fair value of plan assets exceeding the ABO by approximately \$4.8 million. One significant factor that contributed to the improvement in the position of the plan at December 31, 2003 was the actual return on plan assets of \$18.4 million for the year ended December 31, 2003. We have not performed a detailed actuarial analysis of the Plan or Actuarial Report for the plan year ended December 31, 2003; therefore, other than with respect to the reasonableness of the assumptions, we make no comment as to the overall reasonableness of this valuation.

We have not performed any other procedures to update the Accounting and Tax Report. Given the significant passage of time and the availability of additional financial information, we expect to update our procedures (at a high level) once the audit of the 2003 financial statements is complete.

Yours very truly,



PricewaterhouseCoopers LLP

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